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Brazil

Agricultural Situation

More Emergency Aid for Soybeans

2006

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Report Highlights:
The Federal Government announced on May 12th a subsidy of 1 billion reais ($470 million) for emergency aid in the form of soybean price supports. The package is aimed to alleviate Brazilian farmers' indebtedness and help improve the generally adverse agricultural situation, owing to the strong Real and high production and transportation costs. The mini-package was not well received by the soybean sector, who considered it belated and insufficient to remedy their losses. Neither did the emergency aid prevent farmers, mostly from the Center-west, from continuing their protests against the federal government on May 16th.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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[BR]

The Federal Government announced on May 12, 2006 an additional 1 billion Reais (US$470 million) in emergency aid for the soybean sector. This amount has been added to the US$8 billion that was announced last month in the form of price supports, debt rollover, and crop insurance for the general agricultural sector (see BR6611). This new soy package is intended to subsidize part of the increase in transportation costs due to higher diesel prices. Some government officials have expressed concern that the emergency aid will be viewed as a direct subsidy for producers, therefore risking the Brazilian position at the WTO.

The additional emergency aid will be dispersed through PROP options. PROP (Private Option Risk Premium) is a price support program managed by CONAB (Brazilian food supply company, equivalent to the Commodity Credit Corporation) which is linked to the Ministry of Agriculture. PROP represents the maximum amount that CONAB will pay to cooperatives and processors in order to guarantee a certain price to producers, which is above the market price. The first weekly auction of PROP options will be conducted on May 23, 2006. Its goal is to assist in the sale of 15 to 20 MMT of soybeans. The government plans to pay producers between US$.70 and $2.80 per 60-kilo bag of soybeans, depending on how far the producer is located from port (For more on how this electronic bidding system works, see BR6607). Producers have questioned whether or not the subsidy is fair because much of the 2005/06 crop has already been sold.

The "mini-package" was not well received by the soybean sector, which contested that it was like "giving an aspirin to someone in the intensive care unit". The request on behalf of the producers was for $3 billion for the state of Mato Grosso alone. After three years of adverse conditions, the vast majority of farmers are not in a positive financial position and the mood of the sector is austere. In late April, Brazilian soybean farmers began blockading roads in Mato Grosso, Paraná, and Rio Grande do Sul, demanding minimum price guarantees for their crop. Farmers claim that the government minimum price does not cover their current production costs. The government's minimum price for soybeans is about $115 per metric ton. Farmers claim this year's cost of production to be in the range of $230 per metric ton.

When the Brazilian government discarded farmers' proposal for a higher minimum price, farmers began blocking access to storage facilities and are preventing exports from leaving the country. According to ANEC, the Brazilian Exporters' Association, accumulated losses are so far in the $100 million range, and it is possible that American soybeans and Argentine meal and oil will fill Brazil's pending contracts. This, however, implies greater competition later in the season.

The combination of low international prices, rising costs of inputs and transportation (including higher diesel prices), and the strong Real has continued to cut away at farmers' profit margins. Other Brazilian industries are also suffering from a similar cost-price squeeze, including cars, car parts, shoes, machines, and furniture. On May 10, the Dollar slumped to 2.0, its lowest exchange rate against the Brazilian Real in five years, bad news for Brazilian soybean farmers.

For the first time in seven years, Brazilian soybean area is projected to decline, due to farmers' indebtedness and the generally adverse agricultural situation. Post is estimating that this year's planted area is down 4 percent and that next year's area will be down another 2 percent. The governor of Mato Grosso and Brazil's largest soybean farmer recently estimated the drop in soybean area for 2006/07 at 10%.

The income from soybeans, the most valuable Brazilian export crop, is vital to the Brazilian trade balance. The general complaint of producers is that they are major contributors to the Brazilian economy, generating wealth but receiving no support or cooperation from the government in return. Soybeans make up a staggering 8% of total Brazilian exports, a drop from 12% last year.